

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE ELECTRIC RATES,)
TERMS AND CONDITIONS OF KENTUCKY)
UTILITIES COMPANY)

CASE NO.
2003-00434

TESTIMONY OF JACK E. BURCH ON BEHALF OF CAC

Please indicate your name, address and describe your current position and professional background.

My name is Jack E. Burch and I have served as Executive Director for Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties since 1979. I graduated from Vanderbilt University with a Master's degree in economics, and hold a Bachelor's degree from Rhodes College. I am the founder and President of the WinterCare Energy Fund, Executive Director of Community Action Council Buyers Club, Inc., a non-profit natural gas marketer, and presently serve on the Columbia Gas Energy Assistance Program Collaborative.

Please describe the purpose of your testimony.

The purpose of my testimony is to state the position of the organizations I represent with respect to the proposed Kentucky Utilities (KU) rate and fee increases and to provide information in support of my position. In summary, we do not believe that a rate increase, as currently proposed by Kentucky Utilities, is a reasonable or appropriate expectation for low-income customers. My testimony will provide a perspective that

represents issues that should be given full consideration in rendering a decision on this case. I am an advocate on behalf of low-income customers. Community Action Council is a low-income advocacy organization.

Please describe the organization of the Community Action Council and give a brief description of its activities.

Community Action Council was established in 1965 as a not-for-profit community action agency of the Commonwealth of Kentucky. The Council's governance includes a Board of Directors representing low-income, public and private sectors of the community. Its mission is to combat poverty.

There are 243 employees operating and administering the Council's main programs and services including:

- self-sufficiency
- child development
- homeless programs
- volunteer programs
- youth development
- transportation services
- clothing banks
- housing
- energy assistance and conservation programs
- emergency assistance
- community outreach and referrals.

Although the Council's core service territory includes Lexington-Fayette, Bourbon, Harrison and Nicholas counties, the Council also provides services in other counties and statewide. For example, the Council staffs the WinterCare Energy Fund providing services across most of the state; child development services extend into Scott County; RSVP extends into Jessamine County. The Buyers Club markets natural gas throughout

the Columbia Gas of Kentucky service territory as does the Columbia Gas Energy Assistance Program.

The Council is uniquely positioned to serve low-income populations with energy related problems as staff has extensive contact with and knowledge of this population.

Additionally, Council staff is able to help participants access other Council assistance programs as well as other community resources to address the multiple obstacles and barriers that most low-income households face. This comprehensive approach provides greater stability and self-sufficiency to these households, supporting a family's ability to afford necessities such as utility service.

Please describe in more detail the energy assistance activities in which the Community Action Council is currently involved.

In 1983, Community Action Council initiated, with Kentucky Utilities, the establishment of the **WinterCare Energy Fund**. The Council has provided administrative services, financial management and marketing support for the Fund since that time. The Council has also managed the Federal **LIHEAP** program (Low-Income Home Energy Assistance Program) serving low-income customers in Fayette, Bourbon, Harrison and Nicholas counties since its inception.

Since 1978, the Council has operated a **Weatherization Assistance Program** designed to help low-income individuals and families conserve energy. Weatherization services include caulking, weather-stripping, replacement of thresholds and door sweeps, re-glazing windows and replacing broken glass, outside wall repair, minor roof repair, attic insulating, repairing and replacing skirting around the foundation, under-floor insulation

including wrapping pipes and insulating heat ducts, venting the attic and crawl spaces, and repairing or replacing heating equipment and venting system.

The Council currently administers a utility funded energy subsidy program serving approximately 850 low-income households in partnership with **Columbia Gas of Kentucky** and the network of community action agencies serving the Columbia Gas service territory. Also, in cooperation with Columbia Gas during the past few years, the Council has developed a “Buyers Club” for the purchase of natural gas, aggregating low-income and other customers for collective buying power within the Columbia Gas Choice Program.

Additionally, the Council’s **Summer Cooling** program served 46 seriously ill and disabled Kentucky Utilities customers in 2003 with the provision and installation of air conditioners.

During the past year, the Council has been granted funding to pursue a demand side management program through the Department of Health and Human Services, Office for Community Services, called REACH (Residential Energy Assistance Challenge). In addition, this year, the Council has contracted with Honeywell to assist them in carrying out the LG&E “We Care” demand side management program in its four core counties.

Are there initiatives that Community Action Council partners with KU or LG&E? Please discuss.

The Council currently contracts with Honeywell in carrying out the LG&E/KU “WeCare” program.

The Council administers contributions from KU customers and matching corporate funds from KU for WinterCare. The funds are available throughout the KU service territory through the community action agency network.

By mutual agreement, KU provides a customer service representative on-site during the heating season at a Council location in order to better serve low-income customers and provide a better access point. During this time, also, the Council collects customer co-pays and transfers those funds to KU. To date this year, \$8,037 has been collected in co-pays and transferred to KU.

Please describe the low-income population in the Kentucky Utilities service territory.

Based on 2000 Census data, the following chart provides poverty status by county for KU service counties. It shows an estimated number of KU low-income customers based on the poverty rate by county. KU customer counts by county were provided by KU in 2002. Of note and as indicated in KU's direct testimony, the actual number of KU

KU Service County	Poverty Rate	KU Customers By County	Estimate of KU Customers in Poverty	KU Service County	Poverty Rate	KU Customers By County	Estimate of KU Customers in Poverty
Clay	35.40%	2,193	776	Owen	12.10%	2,137	259
Knox	29.60%	3,309	979	Madison	12.00%	18,957	2,275
Harian	29.10%	14,553	4,235	Barren	11.80%	1,262	149
Bell	26.70%	13,888	3,708	Gallatin	11.60%	1,376	160
McCreary	26.10%	1,912	499	Garrard	11.60%	3,484	404
Lee	25.20%	774	195	McCracken	11.40%	958	109
Estill	22.50%	3,175	714	Ballard	10.70%	2,444	262
Whitley	21.60%	3,462	748	Carlisle	10.50%	32	3
Casey	20.70%	1,821	377	Carroll	10.40%	3,745	389
Russell	20.40%	2,602	531	Henry	10.40%	4,063	423
Fulton	20.10%	47	9	Washington	10.30%	1,936	199
Rockcastle	19.10%	3,066	586	Lyon	10.20%	2,647	270
Hart	18.60%	3,688	686	Mercer	10.00%	7,291	729
Laurel	17.80%	10,903	1,941	Nelson	10.00%	2,713	271
Robertson	17.50%	405	71	Trimble	10.00%	1,376	138
Bath	16.40%	2,437	400	Pendleton	9.80%	849	83
Lincoln	16.40%	4,024	660	Henderson	9.70%	2,657	258
Rowan	15.90%	4,779	760	Nicholas	9.70%	1,959	190
Marion	15.80%	4,013	634	Daviess	9.40%	16	2
Muhlenberg	15.50%	14,382	2,229	Harrison	9.40%	4,120	387
Green	15.20%	1,371	208	Union	9.30%	5,709	531
Fleming	14.80%	2,085	309	Boyle	9.10%	10,617	966
Pulaski	14.80%	10,421	1,542	Grant	9.00%	301	27
Crittenden	14.70%	2,983	439	Clark	8.40%	12,583	1,057
Edmonson	14.20%	81	12	Jessamine	8.40%	4,796	403
Hickman	14.20%	1,074	153	Fayette	8.20%	122,024	10,006
Taylor	14.20%	4,389	623	Hardin	8.20%	18,422	1,511
Grayson	13.90%	3,577	497	Spencer	7.70%	1,575	121
Ohio	13.90%	4,636	644	Bracken	7.60%	2,637	200
McLean	13.70%	2,599	356	Livingston	7.60%	561	43
Hopkins	13.60%	12,618	1,716	Campbell	7.30%	511	37
Mason	12.90%	6,978	900	Scott	7.30%	13,575	991
Adair	12.70%	2,631	334	Franklin	6.90%	2,720	188
Larue	12.60%	2,961	373	Shelby	6.50%	10,367	674
Montgomery	12.50%	7,774	972	Bullitt	6.20%	715	44
Webster	12.40%	2,849	353	Woodford	5.20%	11,592	603
Bourbon	12.30%	6,493	799	Anderson	4.80%	5,519	265
Caldwell	12.20%	1,283	157	Oldham	2.90%	4,654	135
Christian	12.10%	926	112	Total			55,900

customers has increased by about 10,000 customers since that time making this chart conservative at best. The chart is in descending order from most impoverished counties to least.

Census Data for 2000 indicates that there are approximately 55,988 KU customers in poverty throughout its service territory. Several of the counties report some of the highest poverty rates in Kentucky. Eleven counties (Clay, Knox, Harlan, Bell, McCreary, Lee, Estill, Whitley, Casey, Russell, and Fulton) report poverty rates above 20% that according to Census definitions are extremely high. Clay County, with a poverty rate of 35.4% is the most impoverished county in Kentucky according to these definitions.

The percent of KU customers who are in poverty, according to these estimates, is at least 11.7% of the total customer base of 476,819.

The Census Bureau uses income and family size as the basis for determining poverty. Poverty and need affordability is an economic equation of income versus basic needs of a family depending on the size of a family. Families in poverty, based on the limits of their income, cannot meet their basic needs.

Focusing on current energy affordability, families could not meet their basic energy needs this year as evidenced by data from the Low Income Home Energy Assistance Program (LIHEAP) in Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties administered by the Council. To date 1,173 households have requested assistance during the Crisis component. The total of those applying for assistance required \$143,935

payable to Kentucky Utilities just to keep from being disconnected. The Council to date has been able to pay \$108,908 in federal assistance to KU.

Last year the average need to keep KU service running was \$171,600 and the Federal program was able to pay out \$120,577 to KU in assistance for 1,253 low-income customers.

As of this writing, the season is not over. It is anticipated that the high winter heating bills will continue to arrive even after the weather has warmed. It is during this period of the season that we observe families making choices to discontinue service rather than pay what is still owed in order to shift resources to meeting other needs.

This data effectively illustrates the energy affordability aspect of the economic equation for low-income families who cannot meet basic needs. For a senior citizen on a fixed income, utility service is not only a basic need it is a survival need. This does not include an assessment of other basic needs that households require like food, shelter, medication, among others. The stress of these demands stretches a family's resources beyond what it can sustain. This information is based on data at the current KU rates, with a rate increase, the affordability gap will greatly widen.

Please describe how the proposed rate and fee increases will affect low-income people.

Using the 2000 Census as a basis for estimating the number of low-income KU customers as described above (55,988 low-income KU customers), the impact is estimated to be approximately an additional \$2,839,836 on the shoulders and out of the pockets of low-income customers and relief agencies.

Low-Income Customers	Total Customers	% Low-Income	Proposed Residential Revenue Increase	Impact on Low-Income
55,988	476,819	11.74%	24,185,322	2,839,836

Figuring the impact by using KU's monthly increase estimate per household figure of \$4 as provided in their direct testimony, shows the impact on the poor as an additional \$2,687,424.

Low-Income Customers	\$4 x 12 months per household = Impact on Low-Income
55,988	2,687,424

Using either equation provides consistent estimates. With a situation as discussed in the previous section, current energy assistance does not meet the need. A rate increase as proposed will have a devastating impact on the poor, those with already limited resources.

Of more concern are the eleven most impoverished counties (greater than 20% poverty rate) in the KU service territory (Clay, Knox, Harlan, Bell, McCreary, Lee, Estill, Whitley, Casey, Russell, and Fulton) where it is estimated that there are 12,772 low-income customers. The impact alone for the low-income people in these counties is an increase of \$613,056 to \$647,824 depending on which variable you use.

If the energy affordability gap continues to widen as a result of the outcome of this case, families will be forced to make choices about which basic needs they will attempt to satisfy. Families have to do this now at current rates. With a rate increase, the magnitude

of having to negotiate basic needs will increase and the stress on the family will be magnified. The difficulty of stretching resources will continue to act as a barrier to increasing opportunity and reaching self-sufficiency. For those who have made strides in increasing their incomes, they will have to take two or three steps back and some back to where they started in the income versus basic needs equation. The rate increase will create a barrier but it will also create a situation where relief agencies will not be able to come close to providing assistance that will really matter.

Unfortunately, the rate increase is not the only issue that surfaces as a result of this case for low-income people.

Fee Change	Current Fee	Proposed Fee	Increase/ (Decrease)
Charge for disconnecting and reconnecting service	\$10.50 (\$38.00 after hours)	\$31.00	\$20.50
Residential Deposits	\$50.00 (monthly billed), \$ 75.00 (bimonthly billed)	\$115.00	\$65/\$40
Returned Check Charge	\$5.00	\$9.00	\$4
Meter Testing Charge	\$14.00	\$31.40	\$17.40

Of most concern in regards to low-income customers are the increases in fees for disconnect/reconnect and residential deposits. For those on limited incomes, disconnect/reconnect is always a reality in the fine balancing act of energy affordability. Circumstances present themselves that might have the customer making a choice to

disconnect because the built up arrearages are too high in comparison to income and the weather has warmed. Others might experience having to wait for back income to roll in. Others may have had some recent vital medical procedures or medications and the choice had to be made to pay these medical bills before paying for electric service. The latter situation is common among the elderly.

The steep increase for deposits is also an affordability issue for low-income people. In the case of the rate increase and the fee increases, both of these proposals are too high and cannot be afforded by those with limited or fixed incomes. This is evident in that at current rates and fees the energy affordability gap exists. I am encouraging KU to reconsider both its rate increase and its fees increase set forth in this filing and to proactively seek ways to offset the burden for its low-income customers.

The proposed changes are drastic increases and have a significant impact on those whose incomes render them unable to pay. It is also disappointing that the promised efficiencies from KU's recent series of mergers have not kept the company from seeking a rate increase, especially given its long prior history of high profitability without increasing rates.

Are any other factors already adversely affecting the ability of the low-income customers of KU to pay for their electric service?

Yes. Over the past year, coal prices have steeply increased by as much as 80%. Even with contracts in place for delivery of coal to KU's power plants, any increase in coal prices ultimately finds its way to the customer's bill through the "Electric Fuel Adjustment" clause. This allows the utility to pass the higher costs of fuel on to its

customers. When the fuel adjustment clause is increased to reflect higher coal prices, the resulting increase in electric rates disproportionately affects the low-income population, even before general rates are increased.

What do you propose as the solution in this case?

Regardless of the size of the increase in rates and fees, low-income people already experience an affordability gap. I am encouraging KU to create a safety net for their low-income customers by taking the road other utility companies have taken. Other companies have taken their lead from the opportunity that has been set forth in HB 305, a low-income energy assistance program. I would encourage KU to both reconsider the size of increase in rates and fees and consider creating an energy assistance safety net.

Please describe how energy assistance initiatives help low-income people and the utility company.

Energy assistance programs provide a safety net for the low-income customer and help close the affordability gap. The safety net helps keep vital energy service running and makes it more affordable to the low-income customer. Energy assistance programs help companies lessen the amount of bad debt to write off and save on the costs associated with disconnects and reconnects.

Has Community Action Council been involved in utility company sponsored energy assistance programs either currently or in the past? Please describe.

The Columbia Gas of Kentucky Customer Assistance Program was initiated by Columbia Gas of Kentucky in 1995 because of a collaborative effort of the Attorney General, Lexington-Fayette Urban County Government, Kentucky Legal Services, and

Community Action Council. The purpose was to offer low-income gas customers an affordable gas utility bill payment based on their monthly income. The Council worked closely with Columbia Gas to design and implement the program with the best interests of the persons who would be served in mind. The Council has operated the program at capacity since its inception. In 2003, as part of the Columbia Gas of Kentucky rate case, the number of beneficiaries was increased and the program expanded to the entire Columbia Gas service territory. The Council played a significant part in the re-design of the model that was developed, and is implementing the program for Columbia Gas.

Is an energy subsidy the only benefit of an energy assistance program?

No, but when a program is established in strong collaboration with a comprehensive service organization the benefits are expanded. Once enrolled in the program, customers have access to a wide-variety of both short and long-term service programs that help them strive toward self-sufficiency. Staff of such an organization is able to help participants access other assistance programs as well as other community resources to address the multiple obstacles and barriers that most low income households face. This comprehensive approach is intended to provide greater stability and self-sufficiency to these households, promoting more consistency in utility payments.

Is it KU's responsibility to make a positive impact on the lives of low-income people?

As a public utility, Kentucky Utilities has an obligation to its low-income customers. KU is the only choice for electric service. Low-income people cannot shop around for a better deal.

How could a KU energy assistance program work?

Such a program reduces monthly utility bills to an affordable monthly amount for eligible households. It should have provisions for assisting customers with pre-program arrearages. It should offer active interventions with a household in danger of shutoff. It links the customer to comprehensive short and long term self-sufficiency programs.

The Columbia Gas Energy Assistance Program, for example, is available to households with incomes up to 110% of poverty, applicants must be responsible for home energy costs and must be willing to recertify annually (every 3 months for households with zero income), and households must also complete a weatherization application at the time of application.

The EAP participants receive an additional subsidy applied directly to their account during the five winter heating months. The subsidy schedule is graduated and provides five levels of subsidy amount based on level of income. The level of subsidy is also dynamic in that it provides a greater subsidy during the peak heating season and a lesser subsidy during seasonal transition.

Is there any evidence that this type of program could be successful?

At the end of March 1999, a third party evaluation of the pilot of the Columbia Gas Energy Assistance Program was completed. Following is a summary of those findings for the first three years of the program:

- People Served – average of 484 customers enrolled each month; average monthly incomes were approximately 60% of the federal poverty level.
- Shutoffs Avoided – it is estimate that the EAP program resulted in 738 fewer shutoff orders executed during year 3 of the pilot.
- More Consistent Payment – approximately 83% of EAP customers had arrearages in the year prior to the EAP program, by the third year this number decreased to approximately 10%.
- Energy Use – no significant increases in energy use were reported, compared to the pre-EAP period; all participants were referred for weatherization services.
- Affordability – gas bills approximately 12% of monthly income in the pre-EAP period, reduced to 5.5% with monthly EAP payments.

Are resources for energy assistance sufficient to meet the needs of the low-income population in the Kentucky Utilities service territory? Please discuss.

No, resources are not sufficient to meet the needs of the population. Federal LIHEAP funding to the state has been highly variable in the past several years. The WinterCare Energy Fund is limited primarily to individual and corporate donations. The fund has not significantly increased in the past 10 years.

There continues to be a significant gap, as described by Roger Colton, a leading energy affordability consultant, between the cost of utility service and the ability of the elderly, the working poor and other low-income households to pay. Current energy assistance initiatives within the Kentucky Utilities area do not come close to addressing this gap. Each year, Community Action Council is forced to turn away hundreds of families seeking energy assistance for lack of available funds.

In summary, please state your position regarding KU's proposed rate increase and your recommendations regarding the same.

The rate and fee increase is too high and will greatly impact the ability of low-income customers to pay for essential service. Without additional means of support like low-income subsidies, the affordability gap will be in excess and continue to grow.

Does this end your direct testimony?

Yes


JACK E. BURCH

COMMONWEALTH OF KENTUCKY)
COUNTY OF FAYETTE)

Subscribed and sworn to before me by Jack E. Burch on this the 23rd day of March, 2004.

My commission expires: June 25, 2005


NOTARY PUBLIC, STATE AT LARGE